

Message Text

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20

ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 NEA-14 IO-14 H-03 L-03 PRS-01

PA-04 USIA-15 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 SS-20 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 /182 W

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R 180258Z JUL 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 5310

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USADB

TREASURY FOR PEGGY GONZALEZ

E.O. 11652: DECLAS 1/18/75

TAGS: EAID, EFIN

SUBJECT: FINANCIAL POLICIES REVIEW

REF: GONZALEZ/PAIK TELECON JULY 17 AND MANILA 7973

IN REFERENCE TO EXEMPTING UNCOMMITTED PORTIONS OF
CREDIT LINES TO NATIONAL DEVELOPMENT BANKS FROM
PROPOSED INCREASE IN ADB LENDING RATE, THERE ARE
BASICALLY TWO REASONS BEHIND BANK SUGGESTION: (A)
ALTHOUGH FUNDS UNDER THESE CREDIT LINES ARE OFFICIALLY
UNCOMMITTED, IN REALITY INTERMEDIARY DEVELOPMENT
INSTITUTIONS ARE ALREADY CONSIDERING LOAN APPLICATIONS,
MANY OF WHICH ARE FROM SMALL TO MEDIUM-SIZE FIRMS,
BASED ON EXISTING RATE OF 7 1/2 PERCENT. THEREFORE,
ABRUPT CHANGING OF FINANCIAL COST MAY WORK HARDSHIP
IN MANY CASES WHERE PROJECT COST ESTIMATE HAS ALREADY
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ASSUMED GOING RATE OF 7 1/2 PERCENT; (B) ADB WORKING

PAPER 7-74 ENTITLED "DEVELOPMENT BANKS" (POUCHED NAC JULY 16 USADB CABLE BEING PREPARED) POINTS OUT ADVISABILITY OF CHARGING INTEREST RATE TO NATIONAL DEVELOPMENT BANKS ON FIXED BASIS RATHER THAN FLOATING BASIS WHICH IS CURRENT ADB PRACTICE. BANK WILL MOST LIKELY ADOPT IBRD PRACTICE AS RESULT OF DEVELOPMENT BANK POLICY DISCUSSION SCHEDULED AUGUST 15. ALSO, SAME PROCEDURE WAS FOLLOWED WHEN RATE WAS INCREASED FROM 6-7/8 TO 7 1/2 PERCENT. THEREFORE, MANAGEMENT IS DESIROUS OF APPLYING PRESENT 7 1/2 PERCENT RATE AS APPROPRIATE INTEREST RATE FOR EXISTING CREDIT LINES. AMOUNT INVOLVED IS APPROXIMATELY \$122 MILLION AND IF LENDING RATE IS INCREASED TO 8 1/4 PERCENT, FINANCIAL IMPACT OF PROPOSED RECOMMENDATION WOULD BE APPROXIMATELY \$900,000 ANNUALLY ON FULLY DISBURSED BASIS.
SULLIVAN

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Message Attributes

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30 JUN 2005

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